



## Retirees & Retirement Frequently Asked Questions: The City of Boulder's \$1,500/\$3,000 and \$5,000/\$10,000 Deductible Plan with HSA

- *Can I enroll in the \$1,500/\$3,000 or \$5,000/\$10,000 Deductible Plan if I am covered by Medicare?*
  - Yes, but you cannot open an HSA while covered by any part of Medicare.
- *I'm only enrolled in Medicare Part A, how does that impact me?*
  - Medicare Part A and Part B count as non-qualified health coverage and will prohibit you from contributing to an HSA.
- *I am over 65, but not enrolled in Medicare, can I still have an HSA?*
  - HSA eligibility is based upon being “entitled” to Medicare, not just “eligible”. Being “entitled” means that you became eligible and filed an application, and/or became approved for any part of Medicare. When you become “entitled”, meaning your name is now in the Medicare system, you are no longer eligible to contribute to an HSA. Here is an example from the IRS site:

*Susie, age 66, is covered under the \$5,000 Deductible Plan. Although Susie is eligible for Medicare, Susie is not actually entitled to Medicare because she did not apply for benefits under Medicare (i.e., she did not enroll in Medicare Part A or Part B). If Susie is otherwise an eligible individual (not covered by other, non-qualified health plans), she may contribute to an HSA.*
- *Can I enroll in the \$1,500/\$3,000 or \$5,000/\$10,000 Deductible Plan if I will be covered by Medicare soon?*
  - Yes.
  - Once you enroll in Medicare, you can use your HSA to pay Medicare premiums, deductibles, copays, and coinsurance under any part of Medicare. The one Medicare expense you cannot use your HSA for is “Medigap” premiums.
  - Once you enroll in Medicare, you can no longer contribute to an HSA, even though you can utilize existing funds. If your birthday falls mid-year, you will have to prorate your HSA contributions for the portion of the year when you are not enrolled in Medicare.
  - For example if you turn 65 and enroll in Medicare in July, you should notify HR to stop your HSA payroll deductions early in June. You can only contribute 6 months’ worth of the HSA contribution limit since you will be enrolled in Medicare for the remaining 6 months of the year (e.g. \$3,450 individual HSA contribution limit divided by 12 months is \$287.50 per month, multiplied by 6 eligible months equals \$1,725 for the year).
- *What if I don't take Medicare when I first become eligible?*
  - If you do not take Medicare when you first qualify, you must take special precautions if and when you do decide to collect Social Security benefits (either while working or when you retire). You need to be sure to stop all contributions to your HSA up to **six months before** you collect Social Security. This is because when you apply for Social Security, Medicare Part A will be retroactive for up to six months (as long as you were eligible for Medicare during those six months). If you do

not stop contributing the six months before you apply for Social Security, you may have a tax penalty. The penalty would happen because you are not allowed to put money into your HSA while you have Medicare coverage.

- *Will the HSA contribution impact my PERA pensionable earnings?*
  - No, because your contributions are made through the City's Section 125 cafeteria (pre-tax) plan.
- *Will the HSA contribution impact my New Hire Fire and Police pensionable earnings?*
  - No, because your contributions are made through the City's Section 125 cafeteria (pre-tax) plan.
- *If my earnings are \$50,000 and the HSA contribution is \$1,000, what are my PERA pensionable wages?*
  - They are still \$50,000.
- *If my spouse is not covered by the HSA-eligible plan because he/she is enrolled in Medicare, can the account holder's HSA funds still be used for Medicare premiums of the spouse?*
  - HSA funds of an account holder under age 65 may not be used for the Medicare premiums of a Medicare-enrolled spouse, according to the IRS. There is no rule stated against using HSA funds for other Medicare expenses such as copays or coinsurance, or for other qualified medical expenses of a Medicare-enrolled spouse.
  - Once you both are Medicare eligible, you will no longer be able to contribute to your HSA, but you can both use the funds for Medicare expenses including premiums.
- *Can HSA distributions be used for the "Other health coverage[s]" listed in Publication 969?*
  - Generally, HSA funds cannot be used to pay insurance premiums. Exceptions include: Long Term Care insurance premiums, COBRA continued coverage premiums, and health insurance premiums while an individual is receiving unemployment compensation.
  - If you are over 65, you can use your HSA for Medicare premiums (Part A, B, C, and D included) as long as your plan is not a "Medigap" or Medicare Supplement plan.
  - <http://www.irs.gov/pub/irs-pdf/p969.pdf>
- *Can HSA distributions be used for the non-qualified expenses after I turn 65?*
  - Yes, but you will pay income tax on the amount you use on non-qualified expenses. However, after age 65, you will no longer incur the 20% penalty.